

Message Text

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ACTION ARA-20

INFO OCT-01 ISO-00 CIAE-00 DODE-00 PM-07 H-03 INR-10 L-03

NSAE-00 NSC-10 PA-04 RSC-01 PRS-01 SPC-03 SS-20

USIA-15 ACDA-19 IO-14 AID-20 COME-00 EB-11 FRB-02

TRSE-00 XMB-07 OPIC-12 CIEP-02 LAB-06 SIL-01 OMB-01

INT-08 SCEM-02 EUR-25 DRC-01 /229 W
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FM AMEMBASSY CARACAS

TO SECSTATE WASHDC PRIORITY 1602

C O N F I D E N T I A L CARACAS 9164

E.O. 11652: XGDS DECLASS. 10/27/93

TAGS: ENRG VE

SUBJECT: POSSIBLE DIVERSION OF VENEZUELAN OIL

REF: CARACAS 8816

1. RAMSEY MICHELENA, DIRECTOR OF PETROLEUM ECONOMICS IN MINISTRY OF MINES AND HYDROCARBONS, HAS VERY CONFIDENTIALLY INFORMED PETROLEUM ATTACHE THAT VENEZUELAN GOVERNMENT IS NOW LEANING TOWARD REQUIRING IIL COMPANIES TO PAY ROYALTIES IN OIL RATHER THAN CASH. MICHELENA SAID THIS WOULD INVOLVE ABOUT 600,000 B/D OF OIL WHICH WOULD HAVE TO BE DELIVERED BY OIL COMPANIES TO VENEZUELAN STATE OIL COMPANY (CVP). MICHELENA SAID HE FEARS END RESULT MIGHT BE DIVERSION THIS OIL AWAY FROM U.S. MARKET, WITH CONSEQUENT HARM TO U.S. - VENEZUELAN RELATIONS AT THIS CRITICAL MOMENT. THERE HAS BEEN TALK, HE SAID, THAT CVP WOULD LIKE TO SELL ROYALTY OIL TO STATE OIL COMPANIES SUCH AS THOSE OF FRANCE, GERMANY, MEXICO AND BRAZIL.

2. MICHELENA SAID THAT OIL COMPANIES, IN CONVERSATIONS
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REQUESTED BY GOVERNMENT, HAVE OFFERED TO PAY SOMEWHAT

HIGHER ROYALTIES BY INCREASING REFERENCE PRICE USED TO CALCULATE ROYALTIES. HOWEVER, HE SAID OIL COMPANIES' OFFER FALLS FAR SHORT OF AMOUNT OF ROYALTIES THAT WOULD BE PAYABLE IF THEY WERE CALCULATED ON TAX REFERENCE VALUES USED TO CALCULATE COMPANIES' INCOME TAXES. MICHELENA SAID IT IS NOT SO MUCH OPPORTUNITY OF GETTING INCREASED ROYALTIES THAT SEEMS TO BE SWAYING GOVERNMENT DECISION TO TAKE ROYALTIES IN KIND BUT, RATHER, GOVERNMENT NOW SEES POLITICAL ADVANTAGE IN TAKING THIS OIL FROM OIL COMPANIES AND TURNING IT OVER TO CVP.

3. MICHELENA DOES NOT BELIEVE THAT VENEZUELAN GOVERNMENT WOULD NECESSARILY BE PERSUADED TO LEAVE ROYALTY OIL WITH COMPANIES EVEN IF COMPANIES OFFERED TO BASE ROYALTY CALCULATIONS ON TAX REFERENCE VALUES. (COMPANIES HAD INDICATED IN INITIAL DISCUSSION ON THIS SUBJECT THAT THEY WOULD BE PREPARED TO DISCUSS OTHER FORMULAS FOR CALCULATING ROYALTIES IF THE ONE THEY PROPOSED NOT ACCEPTABLE TO GOVERNMENT, BUT MINISTER THIS FAR HAS NOT CALLED THEM IN FOR FURTHER DISCUSSIONS). MICHELENA BELIEVES THAT ROYALTY QUESTION HAS NOW BECOME POLITICAL AND MUST BE HANDLED AT POLITICAL LEVEL IF ADVERSE CONSEQUENCES ARE TO BE AVOIDED.

4. MICHELENA SUGGESTED PRIVATELY THAT U.S. AMBASSADOR SHOULD TAKE UP THIS MATTER WITH FOREIGN MINISTER CALVANI FROM POINT OF VIEW OF U.S. - VENEZUELAN RELATIONS. SINCE VENEZUELA HAS LEGAL RIGHT TO TAKE ROYALTIES IN KIND AND SINCE QUESTION OF ROYALTY PRICE SHOULD BE LEFT TO NEGOTIATIONS BETWEEN VENEZUELAN GOVERNMENT AND OIL COMPANIES, HE RECOMMENDS THAT U.S. APPROACH SHOULD RELATE ONLY TO AVOIDANCE OF STEPS THAT MIGHT HAVE EFFECT OF DIVERTING NEEDED OIL FROM U.S. MARKET. MICHELENA REQUESTS THAT HE NOT BE IDENTIFIED AS SOURCE OF ANY OF OUR INFORMATION ON THIS PROBLEM.

5. COMMENT: MICHELENA AS KEY ADVISOR TO MINISTER IS IN POSITION TO BE FULLY INFORMED AS TO VENEZUELAN GOVERNMENT INTENTIONS RE TAKING ROYALTIES IN KIND. WE BELIEVE HIS INFORMATION TO BE ACCURATE AND HIS MOTIVATION CONFIDENTIAL

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(AVOIDING POSSIBLE DAMAGE TO U.S. - VENEZUELAN RELATIONS THAT COULD AFFECT FUTURE U.S. COOPERATION ON PROJECTS HERE OF INTEREST TO MINISTRY) TO BE SINCERE. EMBASSY IS NOT CERTAIN THAT TURNING ROYALTY OIL OVER TO CVP WOULD NECESSARILY RESULT IN ITS DIVERSION AWAY FROM U.S. MARKET. CVP MIGHT SELL OIL BY AUCTION UNDER CONDITIONS THAT WOULD GIVE U.S. COMPANIES FAIR CHANCE TO PURCHASE IT, ALBEIT AT PRICE THAT WOULD PROBABLY BE

EXTREMELY HIGH GIVEN CURRENT MARKET CONDITIONS.

6. ON OTHER HAND, FACT THAT CVP HAS RECENTLY MADE SHIPMENTS OF OIL TO WESTERN EUROPEAN MARKETS USING SOVIET TANKERS, PRESUMABLY AT LOW FREIGHT RATES, SUGGESTS THAT CVP MIGHT FIND SOME ECONOMIC ADVANTAGE IN SELLING CIF TO EUROPEAN MARKETS, QUITE APART FROM ITS NATURAL INCLINATION TO DO BUSINESS WITH STATE OIL COMPANIES.

7. BEFORE MAKING RECOMMENDATIONS TO DEPARTMENT AS TO WHETHER EMBASSY SHOULD BE INSTRUCTED TO MAKE ANY APPROACH TO VENEZUELAN GOVERNMENT ON THIS SUBJECT, EMBASSY WILL SEEK TODAY FURTHER INFORMATION AND OPINIONS FROM KEY OIL COMPANY OFFICIALS HERE. ALTHOUGH WE CANNOT BE CERTAIN OF TIMING, WE THINK WE HAVE AT LEAST A FEW DAYS BEFORE ANY VENEZUELAN DECISION IS LIKELY.
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